

The Human Side of OPEBs

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Health Insurance

- Principals of insurance
- Design considerations
- Distribution of risk
- Impact of age
- Implicit subsidy
- Accommodating OPEB concerns

Choices for the State Employee Health Plan - OPEB Implications

- Same premium for the active employees and early retirees - impacts of leveraging
- Same benefit levels - cost shifting to a vulnerable population
- Limitations on Medicare integrated premium levels

Financing post-retirement health insurance

- Design considerations
- Open-ended liabilities
- Pre-funding or pay-as-you-go
- Funding challenges (medical trend of 10% to 20% versus expected rate of return of around 8%)
- Level and predictable contribution levels

Sick Leave Conversion Credits - Compensated leave vs OPEB

- Unused sick days are converted to a “bank” to pay post-retirement health premiums
- Benefit is not open-ended - not subject to accelerated trend of health costs
- Benefit design encourages conservation of sick leave - cost of SL vs. cost of ASLCC
- Benefit is predictable and easily funded on a level % of payroll

Group Term Life Insurance

- Premiums age-based
- Premium level caps - limit of \$0.60 per thousand creates subsidy for early retirees
- Funding post-retirement life insurance - employer contribution funds paid up life insurance benefit at age 65, early retirees pay only employee share

Why are we where we are?

- Benefits designed to reward long service and encourage lifetime careers
- Public employees value benefits more - trade-off for lower average salaries
- Easier to “sell” (to public) benefit increases rather than large pay increases
- Early retirement incentives
